

BASIC FINANCIAL STATEMENTS

Suffolk Tobacco Asset Securitization Corporation Year Ended December 31, 2012 With Report of Independent Auditors

Ernst & Young LLP



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Report of Independent Auditors

Management and the Board of Directors Suffolk Tobacco Asset Securitization Corporation Hauppauge, New York

We have audited the accompanying financial statements of the governmental activities and each major fund of the Suffolk Tobacco Asset Securitization Corporation, (the "Corporation"), a component unit of the County of Suffolk, New York as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Corporation as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated March 22, 2013 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Ernst + Young LLP

March 22, 2013

REQUIRED SUPPLEMENTARY INFORMATION Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended December 31, 2012

The following is a discussion and analysis of the Suffolk Tobacco Asset Securitization Corporation's (the "Corporation") financial performance, which provides an overview of the Corporation's financial activities for the year ended December 31, 2012. Please read this in conjunction with the Corporation's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The Corporation's liabilities exceeded its assets by \$(57,213,408) (total net position (deficit)) for the current year ended. This amount includes restricted net position of \$21,863,649 and is net of an unrestricted deficit of \$(79,077,057).
- The Corporation's total net position (deficit) increased by \$15,828,317.
- The Corporation's governmental funds reported total ending fund balance of \$243,850,557, and unassigned fund balance of \$146,838 for the year ended December 31, 2012.
- At the end of the current year, unassigned fund balance for the General Fund was \$146,838 or 187.88% of total General Fund expenditures.
- The Corporation's total bonds payable increased by \$47,356,413 or 18.57% during the current year. The key factor in this increase is the issuance of the 2012 bonds and the accretion of interest on outstanding bonds.
- The Corporation received sufficient Tobacco Settlement Revenues (the "TSRs") to make the required debt service payments and a Turbo Principal Payment of \$95,000 against its Series 2008 Bonds during 2012.
- On April 5, 2012, the Corporation issued \$38,375,000 of Tobacco Settlement Asset-Backed Bonds, Series 2012 ("Series 2012 Bonds") pursuant to the Indenture, dated as of March 1, 2012 (the "2012 Indenture") between the Corporation and The Bank of New York Mellon, as Trustee (the "Trustee"). The Series 2012 Bonds are comprised of two series the Series 2012A Bonds in the principal amount of \$3,740,000, which are federally taxable fixed amortization bonds (the "Series 2012A Bonds"), and the Series 2012B Bonds in the principal amount of \$34,635,000, which are tax-exempt fixed amortization bonds (the "Series 2012B Bonds"). The Corporation used the proceeds from the Series 2012 Bonds to: (i) fund a Liquidity Reserve Account for the Series 2012 Senior Bonds for \$3,025,163; (ii) pay the costs of issuance of the Series 2012 Bonds; (iii) fund interest on the Series 2012 Bonds through the December 1, 2012 payment; and (iv) pay amounts to the Residual Trust as registered owner of the Residual Certificate.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Corporation's annual report is presented in two parts, management's discussion and analysis (this section), and the basic financial statements.

The basic financial statements include government-wide financial statements, fund financial statements, and notes that provide more detailed information to supplement the basic financial statements.

Reporting on the Corporation as a Whole

The government-wide financial statements are designed to present an overall picture of the financial position of the Corporation and start on page 8. These statements consist of the statement of net position and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses, with the exception of TSRs (see notes to the financial statements for additional information) are included regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private-sector companies.

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended December 31, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Reporting on the Corporation as a Whole (continued)

The statement of net position combines and consolidates the Corporation's current financial resources with noncurrent assets and long-term obligations. This statement includes all of the Corporation's assets and liabilities.

Net position (deficit) is the difference between the Corporation's assets and liabilities, and represents one measure of the Corporation's financial health. Net position (deficit) is reported as one of two categories: restricted net position and unrestricted net deficit. Over time, changes in the Corporation's net position (deficit) are one indicator of whether its financial health is improving or deteriorating. The reader should consider other nonfinancial factors, such as regulatory changes and tobacco consumption, to assess the overall health of the Corporation.

The statement of activities focuses on both the gross and net cost of various activities; these costs are paid by the Corporation's revenues. This statement summarizes the cost of providing specific government services, and includes all current year revenues and expenses.

Reporting on the Corporation's Most Significant Funds

The fund financial statements begin on page 10 and provide detailed information about the most significant funds – not the Corporation as a whole. The Board of Directors (the "Board") established funds to help it control and manage money for particular purposes and to demonstrate that it is meeting legal responsibilities for using certain money.

Governmental funds - The Corporation's basic services are reported in governmental funds, which focus
on how money flows into and out of those funds and the balances left at year-end that are available for
spending. These funds are reported using an accounting method called modified accrual accounting, which
measures cash and all other financial assets that can readily be converted to cash. The governmental fund
statements provide a detailed short-term view of the Corporation's general government operations. We
describe the relationship (or differences) between governmental activities (reported in the statement of net
position and the statement of activities) and governmental funds in reconciliations on pages 11 and 13.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning with page 14.

FINANCIAL ANALYSIS OF THE CORPORATION AS A WHOLE

Our analysis below focuses on the net position and changes in net position of the Corporation as a whole.

Net Position (Deficit)

Condensed Statement of Net Position (Deficit) Governmental Activities As of December 31.

of December 51,	2012	2011
Assets		
Current and other assets	\$ 22,040,041	\$ 19,074,744
Deferred charges, net	224,586,876	 195,081,562
Total Assets	246,626,917	214,156,306
Liabilities	 	
Current liabilities	2,659,458	1,803,102
Non-current liabilities	301,180,867	 253,738,295
Total Liabilities	303,840,325	255,541,397
Net Position (Deficit)		
Restricted	21,863,649	18,832,725
Unrestricted	(79,077,057)	 (60,217,816)
Total Net Position (Deficit)	\$ (57,213,408)	\$ (41,385,091)

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended December 31, 2012

FINANCIAL ANALYSIS OF THE CORPORATION AS A WHOLE (continued)

Net Position (Deficit) (continued)

As of December 31, 2012, total assets of the Corporation were \$246,626,917, an increase of \$32,470,611 or 15.16% over the prior year. The increase is mostly attributable to the current year addition to deferred charges related to the issuance of the 2012 bonds. Total liabilities increased \$48,298,928 or 18.90% to \$303,840,325. The major reason for the increase is the issuance of new bonds. The overall net position (deficit) increased over the prior year by \$15,828,317 to \$(57,213,408). Of this net position (deficit) for governmental activities, \$21,863,649 was restricted by statute or other specific purposes and unrestricted net position (deficit) totaled \$(79,077,057).

Changes in Net Position (Deficit)

Condensed Statement of Activities Governmental Activities

	Year ended ember 31, 2012	Year ended ember 31, 2011
General Revenues		
Interest on investments	\$ 865,597	\$ 865,597
Tobacco settlement revenue	 18,758,798	 18,394,272
Total General Revenues	19,624,395	 19,259,869
Expenses		
General government support	84,244	106,722
Transfer to residual trust	12,005,631	11,772,335
Amortization of deferred charge	5,281,594	5,465,066
Interest on debt	 18,081,243	 16,136,542
Total Expenses	35,452,712	 33,480,665
Increase in Net Deficit	(15,828,317)	(14,220,796)
Net Position (Deficit) at Beginning of Year	 (41,385,091)	 (27,164,295)
Net Position (Deficit) at End of Year	\$ (57,213,408)	\$ (41,385,091)

For the year ended December 31, 2012, general revenues were \$19,624,395, an increase of \$364,526, which is directly attributable to TSRs received in 2012 which totaled \$18,758,798. For the year ended December 31, 2012, expenses totaled \$35,452,712, an increase over the prior year of \$1,972,047. This increase is primarily attributable to the increase in interest on debt related to the 2012 bond issue. As a result of expenses exceeding revenues, the net position (deficit) for the year ended December 31, 2012 was \$(57,213,408), an increase in the deficit of \$15,828,317 over the prior year.

FINANCIAL ANALYSIS OF THE CORPORATION'S FUNDS

Governmental Funds

The focus of the Corporation's governmental funds is to provide information on short-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Corporation's financing requirements.

At December 31, 2012, the Corporation's governmental funds reported combined ending fund balances of \$243,850,557, an increase of \$31,885,726 in comparison with prior year. The increase is due to the proceeds received from the 2012 bond issue. Of this total, \$146,838 constitutes unassigned fund balance, which is available for spending at the Corporation's discretion. The remainder of fund balance is nonspendable or restricted to indicate that it is not available for new spending.

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended December 31, 2012

FINANCIAL ANALYSIS OF THE CORPORATION'S FUNDS (continued)

General Fund

The General Fund is the principal operating fund of the Corporation. At December 31, 2012 and 2011, unassigned fund balance of the General Fund was \$146,838 and \$224,992, respectively. The fund balance of the Corporation's General Fund decreased by \$78,154 for the year ended December 31, 2012. This decrease was due to operating expenditures incurred throughout the year.

Debt Service Fund

The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned for payment of general long-term bond principal and interest. This fund also includes the 2008 Liquidity Reserve Account and 2012 Liquidity Reserve Account. The 2008 Liquidity Reserve Account and 2012 Liquidity Reserve Account were funded at their required levels of \$18,760,231 and \$3,025,163, respectively. These levels are required to be maintained per the 2008 Indenture and 2012 Indenture. More information on the 2008 Liquidity Reserve Account and 2012 Liquidity Reserve Account can be found in note C.1.

Prior to an Event of Default, amounts on deposit in the 2008 Liquidity Reserve Account will be available to pay principal and interest of the Series 2008A Bonds, Series 2008B Bonds and Series 2008C Bonds when due, and pay any other Senior Bonds that are not Capital Appreciation Bonds to the extent Pledged Revenues are insufficient for such purpose.

Prior to an Event of Default, amounts on deposit in the 2012 Liquidity Reserve Account will be available to pay principal and interest of the Series 2012A Bonds and Series 2012B Bonds when due to the extent Pledged Revenues are insufficient for such purpose.

At December 31, 2012, total fund balance was \$21,787,910 and is restricted to pay future debt service. The fund balance of the Corporation's Debt Service Fund increased by \$3,027,318 for the year ended December 31, 2012. This increase is due to the required funding of the 2012 Liquidity Reserve Account. Revenues consisted solely of interest earned on investments. Financing sources consisted of amounts transferred to the Debt Service Fund from the Collection Fund during 2012. Expenditures include payments of principal and interest on the Corporation's outstanding bonds.

Collection Fund

The Collection Fund is used to account for and report financial resources that are restricted, committed, or assigned from the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes such as funding required debt service obligations and making required transfers to the Suffolk County Residual Trust in accordance with the 2008 Indenture and 2012 Indenture.

At December 31, 2012, total fund balance was \$221,915,809, of which \$221,912,564 is nonspendable for future amortization of the consideration paid by the Corporation to the County for the acquisition of future TSRs (deferred charges). The fund balance of the Corporation's Collection Fund increased by \$28,936,562 for the year ended December 31, 2012, primarily due to the issuance of 2012 bonds which resulted in an increase in deferred charges. The Corporation collected \$18,758,798 of total TSRs, of which \$6,747,127 was transferred to the Debt Service Fund to repay a portion of the Corporation's 2008 outstanding bonds, \$12,005,631 was transferred to the residual trust, per the 2008 Indenture and 2012 Indenture, and \$6,040 was used to pay the trustee fees.

Cost of Issuance Fund

The Cost of Issuance Fund is used to account for and report finanial resources that are restricted, committed, or assigned from the portion of the Series 2012 Bond proceeds used to pay the cost of issuance per the 2012 Indenture.

The Collection Fund and the Cost of Issuance Fund were established per the requirements of the 2008 Indenture and 2012 Indenture.

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended December 31, 2012

DEBT ADMINISTRATION

The Corporation's total bonded debt increased by \$47,356,413 or 18.57% during the current year. The key factors in this increase are the issuance of new bonds and accretion of interest.

On April 5, 2012, the Corporation issued \$38,375,000 of Tobacco Settlement Asset-Backed Bonds, Series 2012 ("Series 2012 Bonds") pursuant to the 2012 Indenture between the Corporation and The Bank of New York Mellon, as Trustee (the "Trustee"). The Series 2012 Bonds are comprised of two series – the Series 2012A Bonds in the principal amount of \$3,740,000, which are federally taxable fixed amortization bonds (the "Series 2012A Bonds"), and the Series 2012B Bonds in the principal amount of \$34,635,000, which are taxexempt fixed amortization bonds (the "Series 2012B Bonds"). More detailed information about the Corporation's long-term liabilities is presented in the notes to the basic financial statements.

For 2012, the aggregate Master Settlement Agreement ("MSA") payment was 2% higher than the amount in 2011. This increase was primarily due to additional amounts being released to the states that related to prior years.

On the date of issuance, Standard & Poors assigned a rating of A to the Series 2012A bonds, a rating of A to the Series 2012B Bonds maturing June 1, 2016 through June 1, 2022, a rating of A- to the Series 2012B Bonds maturing June 1, 2023 through June 2032, a rating of A- to the Series 2012B Bond maturing on June 1, 2032, and a rating of BBB+ to the Series 2012B Bond maturing on June 1, 2037.

The Corporation's bond ratings, as assigned by Fitch Ratings, remained stable for the Series 2008A Current Interest Serial Bonds at BBB+, which are due in multiple increments through 2018. The Corporation's \$40,045,000 Series 2008B Current Interest Turbo Term Bonds, due on June 1, 2028, decreased from BBB- to BB, with a negative outlook during 2012. The Corporation's \$62,295,000 Series 2008B Current Interest Turbo Term Bonds, due June 1, 2048, and \$107,671,781 Series 2008C Convertible Capital Appreciation Turbo Term Bonds, due on June 1, 2044, decreased from BB+ to B+ with a negative outlook during 2012. Lastly, the Corporation's \$13,375,082 Series 2008D Convertible Capital Appreciation Turbo Term Bonds, due June 1, 2048, decreased during 2012 from B+ to B with a negative outlook.

FUTURE ECONOMIC FACTORS

The amount of TSRs received is dependent on many economic factors, including future domestic cigarette consumption, the financial capability of the Participating Manufacturers (the "PMs"), litigation affecting the MSA and related legislation, enforcement of state legislation related to the MSA and the tobacco industry. Payments by the PMs under the MSA are subject to certain adjustments, which may be material.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the Corporation's interested parties with an overview of the Corporation's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Suffolk Tobacco Asset Securitization Corporation, H. Lee Dennison Building, 12th Floor, 100 Veterans Memorial Highway, P.O. Box 6100, Hauppauge, New York 11788-0099, Attention: Chairperson.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENT STATEMENT OF NET POSITION December 31, 2012

ASSETS Current Assets: Cash and cash equivalents Cash and cash equivalents - restricted Other receivables - restricted Prepaids		\$ 168,241 3,027,679 72,133 11,757
Total Current Assets		3,279,810
Non-Current Assets: Restricted investments - special reserves Deferred charges, net		18,760,231 224,586,876
Total Non-Current Assets		 243,347,107
	Total Assets	 246,626,917
LIABILITIES Current Liabilities: Accounts payable and accrued liabilities Accrued interest payable Bonds payable Total Current Liabilities		18,158 1,438,154 1,203,146 2,659,458
Non-Current Liabilities: Bonds payable		301,180,867
	Total Liabilities	303,840,325
NET POSITION (DEFICIT) Restricted: Debt service Unrestricted		21,863,649 (79,077,057)
	Total Net Position (Deficit)	\$ (57,213,408)

GOVERNMENT-WIDE FINANCIAL STATEMENT STATEMENT OF ACTIVITIES Year Ended December 31, 2012

Expenses: General government support Transfer to residual trust Amortization of deferred charge Interest on debt		\$	84,244 12,005,631 5,281,594 18,081,243
	Total Expenses		35,452,712
General Revenues: Interest on investments Tobacco settlement revenue		MANAGEMENT STATES OF STATE	865,597 18,758,798
	Total General Revenues		19,624,395
	Change in Net Position (Deficit)		(15,828,317)
Net Position (Deficit) at Beginnin	g of Year		(41,385,091)
Ne	et Position (Deficit) at End of Year	\$	(57,213,408)

SUFFOLK TOBACCO ASSET SECURITIZATION CORPORATION GOVERNMENTAL FUNDS BALANCE SHEET December 31, 2012

				MAJOR FUNDS	FUNDS					
		General Fund		Debt Service Fund	3 ⁻	Collection	_	Cost of Issuance Fund	ω	Total Governmental Funds
ASSETS Cash and cash equivalents Cash - restricted Investments - restricted Due from other funds Deferred charges	₩	164,996	↔	3,027,679	&	3,245	↔	3,245	€	168,241 3,027,679 18,760,231 3,245 221,912,564
Total Assets	s	164,996	s	21,787,910	\$ 22	221,915,809	s	3,245	s	243,871,960
LIABILITIES Accounts payable and accrued liabilities Due to other funds	€	18,158					8	3,245	€	18,158 3,245
Total Liabilities		18,158		-0-		0-		3,245		21,403
FUND BALANCES Non-spendable: Deferred charges					\$	221,912,564				221,912,564
Restricted: Debt service Unassigned		146,838	₩	21,787,910		3,245				21,791,155 146,838
Total Fund Balances		146,838		21,787,910	22	221,915,809		-0-		243,850,557
Total Liabilities and Fund Balances	မာ	164,996	↔	21,787,910	\$ 22	221,915,809	ಈ	3,245	8	243,871,960

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION December 31, 2012

Total Fund Balances - Governmental Funds	\$ 243,850,557
Amounts reported for governmental activities in the statement of net position are different because:	
Unamortized balance of deferred charge for bond issuance costs.	2,674,312
Certain expenditures are considered prepaid to match expenses with the period for which it relates.	11,757
Long-term liabilities applicable to the Corporation's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the statement of net position:	
Bonds payable	(302,384,013)
Interest payable applicable to the Corporation's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the statement of net position.	(1,438,154)
Receivables in the statement of net position that do not provide current financial	

resources are not reported as receivables in the funds.

72,133

\$ (57,213,408)

SUFFOLK TOBACCO ASSET SECURITIZATION CORPORATION
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Year Ended December 31, 2012

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		Debt		Cost of	Total
	General	Service	Collection	Issuance	Governmental
	Fund	Fund	Fund	Fund	Funds
REVENUES					
Tobacco settlement revenue			\$ 18,758,798		\$ 18,758,798
Interest on investments		\$ 865,597			865,597
Total Revenues		865,597	18,758,798		19,624,395
EXPENDITURES					
General government support	\$ 78,154		6,040		84,194
Transfer to residual trust			12,005,631		12,005,631
Amortization of deferred charge			5,281,594		5,281,594
Debt service:					
Principal		1,540,000			1,540,000
Interest		7,245,715			7,245,715
Bond issuance costs			223,579	\$ 458,778	682,357
Total Expenditures	78,154	8,785,715	17,516,844	458,778	26,839,491
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	(78,154)	(7,920,118)	1,241,954	(458,778)	(7,215,096)
OTHER FINANCING SOURCES (USES)					
Proceeds of debt			38,375,000		38,375,000
Premiums			725,822		725,822
Transfers in		10,947,436	3,245	462,023	11,412,704
Transfers out			(11,409,459)	(3,245)	(11,412,704)
Total Other Financing Sources (Uses)	-0-	10,947,436	27,694,608	458,778	39,100,822
Net Change in Fund Balances	(78,154)	3,027,318	28,936,562	o	31,885,726
Fund Balances at Beginning of Year	224,992	18,760,592	192,979,247	-0-	211,964,831
Fund Balances at End of Year	\$ 146,838	\$ 21,787,910	\$ 221,915,809	-0-	\$ 243,850,557

See accompanying notes.

RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2012

\$ 31,885,726

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

whereas these amounts are deferred and amortized in the statement of activities.	
Bond proceeds	(38,375,000)
Repayment of bond principal	1,540,000
Debt issuance costs	682,357
Premiums	(725,822)
Bond interest is recorded as an expenditure on the fund statements when it is paid, and on the statement of activities when it is incurred.	(10,835,528)

Prepaid expenditures are recorded as an expenditure on the fund statements when it is paid, and on the statement of activities when it is incurred.

(50)

Change in Net Position (Deficit) of Governmental Activities

(15,828,317)

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

A. ORGANIZATION

The Suffolk Tobacco Asset Securitization Corporation (the "Corporation") is a local development corporation, and is an instrumentality of, but separate and apart from, the County of Suffolk (the "County"), New York, incorporated under the provisions of Section 1411 of the New York State Not-For-Profit Corporation Law. Although legally separate from and independent of the County, the Corporation is considered an affiliated organization under Governmental Accounting Standards Board (GASB) Statement No. 39, "Determining whether Certain Organizations are Component Units". Accordingly, the Corporation is being reported as a blended component unit for financial reporting purposes in the County's financial statements.

The Board of Directors (the "Board") of the Corporation has four directors, one director is appointed by the Presiding Officer of the County legislature, two directors are appointed by the County Executive and the County Budget Director is a nonvoting ex officio member. One director must meet certain requirements of independence. As of December 31, 2012, one position was vacant.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The more significant of the Corporation's accounting policies are described below.

1. BASIS OF PRESENTATION

The Corporation's basic financial statements include both government-wide (reporting on the Corporation as a whole) and fund financial statements (reporting on the Corporation's most significant funds).

Government-Wide Financial Statements

The government-wide financial statements, i.e. the statement of net position and the statement of activities, display information about the Corporation as a whole. These statements include the financial activities of the overall government. Eliminations of internal activity have been made in these statements. All of the activities of the Corporation are considered governmental activities.

In the government-wide statement of net position, the Corporation's governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables (except for TSRs as discussed in note B.2) as well as long-term debt and obligations. The Corporation's net position (deficit) is reported in two parts – restricted net position and unrestricted net deficit.

The government-wide statement of activities reports the gross expenses of each of the Corporation's functional categories which are supported by general revenues.

This government-wide focus is more on the sustainability of the Corporation as an entity and the change in the Corporation's net position (deficit) resulting from the current year's activities.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. BASIS OF PRESENTATION (continued)

Fund Financial Statements

Fund financial statements report detailed information about the Corporation. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Corporation has presented all funds as major funds.

The funds of the Corporation are considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Governmental Funds – Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of the governmental funds is upon determination of financial position and changes in financial position.

The Corporation reports the following major governmental funds:

General Fund – is the principal operating fund of the Corporation. This fund is used to account for and report all financial resources not accounted for and reported in other funds.

Debt Service Fund – is used to account for and report resources that are restricted, committed, or assigned for payment of general long-term bond principal and interest, and also includes the Liquidity Reserve Accounts. The 2008 Liquidity Reserve Account and 2012 Liquidity Reserve Account were funded at their required levels of \$18,760,231 and \$3,025,163 in 2012. This level is required to be maintained per the 2008 Indenture and 2012 Indenture.

Collection Fund – is used to account for and report financial resources that are restricted, committed, or assigned from proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes, such as funding required debt service obligations and making required transfers to the Suffolk County Residual Trust in accordance with the 2008 Indenture and 2012 Indenture Agreement.

Cost of Issuance Fund – is used to account for and report financial resources that are restricted, committed, or assigned from the portion of the Series 2012 Bond proceeds used to pay the cost of issuance per the 2012 Indenture.

2. BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The financial statements of the Corporation are prepared in accordance with GAAP. The Corporation's reporting entity applies all relevant GASB pronouncements.

Measurement focus refers to what is being measured, where as the basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. BASIS OF ACCOUNTING/MEASUREMENT FOCUS (continued)

In the government-wide statements, governmental activities are presented using the economic resources measurement focus and are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Management, however, has elected to recognize TSRs as they are collected due to the unpredictability of the revenues and the difficulty with which to estimate the amount earned.

In the fund financial statements, governmental funds use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (measurable and available to finance current operations). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Corporation considers all revenues available if they are collected within 60 days after the year end.

3. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND EQUITY

CASH, CASH EQUIVALENTS AND INVESTMENTS

The Corporation's cash and cash equivalents consist of demand deposits and money market accounts.

Investments consist of a repurchase agreement and are stated at the contract value. More information on investments can found in note C.1.

RESTRICTED ASSETS

Certain assets of the Corporation are classified as restricted assets because their use is restricted by contractual agreements and regulations.

OTHER RECEIVABLES

Other receivables include accrued interest income related to the Corporation's investment income. Receivables are recorded and revenues recognized as earned.

INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Those transactions are classified as "due to and due from other funds" in the governmental funds financial statements. Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position.

PREPAIDS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND EQUITY (continued)

DEFERRED CHARGES

Deferred charges are those where the asset recognition criteria have been met, but which expenditure recognition criteria have not been met. Such amounts include the following:

Issuance Costs

Issuance costs related to the issuance of long term debt are deferred, amortized on a straight-line basis over the life of the issue, and are presented net of accumulated amortization, in the government-wide financial statements.

In the fund financial statements bond issuance costs are recognized, during the current period, as debt service expenditures in the funds.

Deferral of Cost from Purchase of Future TSRs

GASB 48, "Sales and Pledges of Receivables and Future Revenues and Intra-entity Transfers of Assets and Future Revenues" requires the Corporation to record the transfer of funds made to the County for the purchase of the TSRs to be classified as a deferred charge. The deferred charge on the TSRs is being amortized based on the ratio of resources used to purchase the future TSRs over the estimated total future revenues to be received to the maturity of the related debt, which is then applied to the current revenues recognized during the year.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Corporation did not have any items qualifying for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Corporation did not have any items qualifying for reporting in this category.

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds on a straight-line basis. Bonds payable are reported net of applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND EQUITY (continued)

EQUITY CLASSIFICATIONS

In the government-wide statements, equity is displayed in two components:

- a. Restricted net position consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. Restricted net position reported in the statement of net position as of December 31, 2012 is not restricted by enabling legislation.
- b. Unrestricted net deficit all other net position that does not meet the definition of "restricted."

When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, then unrestricted resources as needed.

In the fund financial statements there are five classifications of fund balance:

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, not available within a year, or legally or contractually required to be maintained intact. Nonspendable fund balance includes deferred charges recorded in the collection fund of \$221,912,564.

Restricted – Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. Restricted fund balance includes all amounts reported in the debt service fund per the requirements of the indenture agreement and \$3,245 reported in the collection fund.

Committed – Includes amounts that are subject to a purpose constraint imposed by a formal action of the Corporation's highest level of decision-making authority before the end of the fiscal year, and that require the same level of formal action to remove the constraint. Only the action that constitutes the most binding constraint should be considered a commitment. Commitment requires some level of due process and should be a level of constraint that cannot be undone in a simple manner. The Corporation has no committed fund balances as of December 31, 2012.

Assigned – Includes amounts that are constrained by the Corporation's intent to be used for specific purposes, but are neither restricted nor committed. The Corporation has no assigned fund balances as of December 31, 2012.

Unassigned - Includes all other General Fund net position that does not meet the definition of the above four classifications and are deemed to be available for general use by the Corporation.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND EQUITY (continued)

EQUITY CLASSIFICATIONS (continued)

Order of Use of Restricted and Unrestricted Funds

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications, the Board will assess the current financial condition of the Corporation and then determine the order of application of expenditures to which fund balance classification will be charged. It is the intention of the Board that the expenditure is to be spent first from the restricted fund balance to the extent appropriated by either budget or board approved budget revision and then from the unrestricted fund balance. Expenditures incurred in the unrestricted fund balances shall be applied first to the committed fund balance to the extent that there is a commitment, to assigned fund balance to the extent that there is an assignment, and then to the unassigned fund balance.

4. REVENUES AND EXPENDITURES

TOBACCO SETTLEMENT REVENUE

Pursuant to a 2008 Purchase and Sale Agreement dated as of August 1, 2008, (the "2008 TSR Purchase Agreement") between Suffolk County (the "County"), as seller, and the Corporation, as purchaser, the County sold to the Corporation all rights, title and interest of the County under the Master Settlement Agreement (the "MSA") entered into by participating tobacco product manufacturers (the "Manufacturers"), 46 states and 6 other U.S. jurisdictions in November 1998 in settlement of smoking-related litigation and the related Consent Decree and Final Judgment (the "Consent Decree"), including the County's right to be paid certain payments referred to as TSRs to be made by the Manufacturers under the MSA. The consideration paid by the Corporation to the County for such acquisition consisted of \$206,243,337 in cash, all of which was paid into escrow for the benefit of the County. The Corporation funded such consideration from the proceeds of its Tobacco Settlement Asset-Backed Bonds Series 2008 ("Series 2008 Bonds") issued on August 21, 2008, pursuant to the Indenture Agreement dated August 1, 2008.

The Series 2008 Bonds are secured by and payable from a portion of the TSRs equal to 36% of the TSRs received by the Corporation through December 31, 2012, and 75% thereafter, and like percentages of any lump sum payments, if any, received as a payment from a Participating Manufacturer ("PM") that results in, or is due to, a release of that PM from all of its future obligations under the MSA or from any portion of its future obligations under the MSA (such pledged TSRs, the "Previously Pledged TSRs"). The Previously Pledged TSRs do not include (i) 64% of TSRs received by the Corporation through December 31, 2012, (ii) 25% of TSRs received thereafter, (iii) 100% of TSRs representing amounts withheld or deposited in the Disputed Payments Account under the MSA before August 21, 2008, regardless of when such amounts are received, and (iv) 100% of all TSRs paid to Corporation after all amounts due under the 2008 Indenture have been paid or otherwise provided for, each of which constitute "Pledged TSRs" and are transferred to the owner of the security (the "2008 Residual Certificate") issued by the Corporation under the 2008 Indenture, which entitles the owner to the Pledged TSRs.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUES AND EXPENDITURES (continued)

TOBACCO SETTLEMENT REVENUE (continued)

Pursuant to a 2012 Purchase and Sale Agreement dated as of March 1, 2012 (the "2012 TSR Purchase Agreement") between the County, as seller, and the Corporation, as purchaser, the County sold to the Corporation on the Closing Date all of the right, title and interest of the County in the Pledged TSRs paid or payable to the County under the MSA and the Consent Decree (the "2008 Ownership Interest"), including the County's right to be paid certain Annual Payments to be made by cigarette manufacturers under the MSA, which amounts are no longer subject to the lien of the 2008 Indenture and are held by the County as beneficial owner of the 2008 Residual Certificate. The consideration paid by the Corporation to the County for such acquisition consisted of \$34,214,911 in cash, all of which was paid into the Residual Trust for the benefit of the County. The Corporation funded such consideration from the proceeds of its Tobacco Settlement Asset-Backed Bonds, Series 2012 ("Series 2012 Bonds") pursuant to the 2012 Indenture, dated as of March 1, 2012.

Per the 2008 TSR Purchase Agreement and 2012 TSR Purchase Agreement, receipts shall be transferred directly to the Corporation. Under the MSA, amounts shall be paid by the Participating Manufacturers to the escrow agent on or before April 15th of each year. The escrow agent will then disburse these funds to the Corporation. The Corporation collected \$18,758,798 of total TSRs, of which \$6,747,127 was transferred to the Debt Service Fund to repay a portion of the Corporation's 2008 outstanding bonds, \$12,005,631 was transferred to the residual trust, per the 2008 Indenture and 2012 Indenture, and \$6,040 was used to pay the trustee fees.

TRANSFERS TO RESIDUAL TRUST

Transfers to the Residual Trust represent portions of the TSRs received that are required to be transferred to the Suffolk County Residual Trust per the 2008 Indenture and 2012 Indenture. See note D for more detail.

INTERFUND TRANSACTIONS

Interfund transactions have been eliminated from the government-wide financial statements. In the fund statements, interfund transactions include payments to the Debt Service Fund to cover various debt obligations and to the Cost of Issuance Fund to cover costs related to the issuance of the Series 2012 Bonds.

5. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

6. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the report, which is the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS December 31, 2012

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. NEW PRONOUNCEMENT

The Corporation has adopted all of the current statements of the GASB that are applicable. Effective with the financial report for the year ended December 31, 2012, the Corporation has adopted GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

C. DETAIL NOTES ON ALL FUNDS

1. CASH, CASH EQUIVALENTS AND INVESTMENTS

<u>Custodial Credit Risk – Deposits/Investments</u> – Custodial credit risk for investments exists when, in the event of the failure of the counterparty, a government will not be able to recover the value of its investments or collateral securities that are in possession of an outside party.

Deposits are required to be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are either:

- Uncollateralized,
- Collateralized with securities held by the pledging financial institution, or
- Collateralized with securities held by the pledging financial institution's trust department or agent but not in the Corporation's name.

At December 31, 2012, the Corporation's deposit balances were \$3,195,920. Of these balances, \$164,996 was covered by the Federal Deposit Insurance Corporation, \$3,245 consisted of uncollateralized cash held by the trustee, and \$3,027,679 consisted of an uncollateralized temporary investment in Dreyfus Treasury & Agency Cash Management. Of the amount invested in Dreyfus Treasury & Agency Cash Management, \$3,025,163 consists of the 2012 Liquidity Reserve Account. Dreyfus Treasury & Agency Cash Management invests only in U.S. government or U.S. Treasury securities, and in repurchase agreements.

The Corporation's 2008 Liquidity Reserve Account is invested in a repurchase agreement with Bayerische Landesbank. Bayerische Landesbank is authorized to invest in various securities as set forth in the Investment Repurchase Agreement, between the Corporation and Bayerische Landesbank, dated August 21, 2008. The Corporation's share of investments in this repurchase agreement was \$18,760,231 at December 31, 2012, is due to mature on June 1, 2048, and earns interest at 4.614%, annually. The repurchase agreement is fully collateralized by debt obligations having fair values that range from 100% to 102% of the deposited amount held by a custodial bank.

<u>Credit Risk</u> – State law limits investments to those authorized by State statutes. The Corporation has a written investment policy.

<u>Interest-Rate Risk</u> – Interest-rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates substantially increase, thereby affording potential purchasers more favorable rates on essentially equivalent securities. Accordingly, such investments would have to be held to maturity to avoid a potential loss.

<u>Concentration of Credit Risk</u> – Credit risk can arise as a result of failure to adequately diversify investments. Concentration of credit risk disclosure is required for positions of 5 percent or more in securities of a single issuer.

At December 31, 2012, the Corporation did not have any investments subject to credit risk, interest-rate risk or concentration of credit risk.

NOTES TO FINANCIAL STATEMENTS December 31, 2012

C. DETAIL NOTES ON ALL FUNDS (continued)

2. DEFERRED CHARGES

Deferred charges created as a result of the issuance of the 2008 Serial Bonds and the 2012 Serial Bonds and the deferral of cost from purchase of the future TSRs as of December 31, 2012 is as follows:

Cost of issuance	\$ 1,860,189
Underwriter's discount	1,195,822
Total cost of issuance	3,056,011
Less: related amortization	 (381,699)
Deferred charges, net - cost of issuance	2,674,312
Purchase of TSRs	240,458,248
Less: related amortization	 (18,545,684)
Deferred charges, net - purchase of TSRs	 221,912,564
Total deferred charges - net of amortization	\$ 224,586,876

Total amortization expense for the cost of issuance, included in interest on debt, and purchase of TSRs, included in amortization expense on the statement of activities, for the year ended December 31, 2012 totaled \$110,360 and \$5,281,594, respectively.

3. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At December 31, 2012 interfund receivable and payable balances are expected to be paid currently. These balances represent the amount owed to the Collection Fund for unspent amounts remaining from the Cost of Issuance Fund and are stated as follows:

	Re	ceivable	Payable	
Collection Fund Cost of Issuance Fund	\$	3,245	\$	3,245
	\$	3,245	\$	3,245

For the year ended December 31, 2012, interfund transfer balances represent payments from the Collection Fund to disburse TSRs pursuant to the 2008 Indenture and 2012 Indenture. Interfund transfers are stated as follows:

	 Transfer In		Transfer Out	
Debt Service Fund Collection Fund Cost of Issuance Fund	\$ 10,947,436 3,245 462,023	\$	11,409,459 3,245	
	\$ 11,412,704	\$	11,412,704	

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

C. DETAIL NOTES ON ALL FUNDS (continued)

4. LONG-TERM DEBT

<u>Bonds</u> - Tobacco Settlement Asset-Backed Bonds issued in 2008 and 2012 for the purchase of future rights to TSRs are secured by a pledge of revenues to be derived from TSR receipts after the deduction of the amounts necessary to pay all operating charges. Principal and interest paid on these bonds in 2012 totaled \$8,785,715. Interest on select Series 2008 Bonds and Series 2012 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code.

Any additional pledged revenues received above the required debt service payments for the Series 2008 Bonds are used to turbo redeem the outstanding bonds. Any additional pledged revenues received above the required debt service payments for the Series 2012 Bonds are transferred to the 2012 Residual Trust. The Corporation received sufficient TSRs to make the required debt service payment of \$7,515,569 and a Turbo Principal Payment of \$95,000 against its Series 2008 Bonds during 2012.

For the Series 2008 Bonds, pledged revenues consist of a portion of the TSRs equal to 36% of the annual payments received by the Corporation through December 31, 2012, and 75% thereafter and like percentages of any lump sum payment made in lieu of such annual payments. Pledged revenue received in 2012 amounted to \$6,753,167, or 89% of total principal and interest payments made on the 2008 Series Bonds during the year.

For the Series 2012 Bonds, pledged revenues consist of a portion of the TSRs equal to 64% of TSRs received by the Corporation through December 31, 2012, 25% of TSRs received thereafter, 100% of TSRs representing amounts withheld or deposited in the Disputed Payments Account under the MSA before August 21, 2008, regardless of when such amounts are received, and 100% of all TSRs paid to Corporation after all amounts due under the 2008 Indenture have been paid, or otherwise provided for.

Payments with respect to the Series 2008 Bonds and Series 2012 Bonds are dependent upon receipt of TSRs. The Series 2008 Bonds are special obligations of the Corporation payable solely from the pledged revenues, the 2008 Liquidity Reserve Account, and other funds and accounts under the 2008 Indenture. The Series 2012 Bonds are special obligations of the Corporation payable solely from the pledged revenues, the 2012 Liquidity Reserve Account, and other funds and accounts under the 2012 Indenture. The Corporation has no other assets available for the payment of the Series 2008 Bonds and Series 2012 Bonds.

The amount of TSRs received is dependent on many factors, including future domestic cigarette consumption, the financial capability of the Participating Manufacturers (the "PMs"), litigation affecting the MSA and related legislation, enforcement of state legislation related to the MSA and the tobacco industry. Payments by the PMs under the MSA are subject to certain adjustments, which may be material.

Bonds outstanding at December 31, 2012, are as follows:

	Original Date	Original	Interest	Maturity	Amount
Description	lssued	Amount	Rate	Date	Outstanding
2008A	08/21/08	\$ 9,765,000	4.000 - 5.000%	6/1/12-6/1/18	\$ 5,815,000
2008B (2028)	08/21/08	40,045,000	5.375%	6/1/2028	37,525,000
2008B (2048)	08/21/08	62,295,000	6.000%	6/1/2048	62,295,000
2008C	08/21/08	107,671,781	6.625%	6/1/2044	107,671,781
2008D	08/21/08	13,375,082	8.000%	6/1/2048	13,375,082
2012A	03/29/12	3,740,000	1.830 - 3.320%	6/1/13-6/1/16	3,740,000
2012B	03/29/12	34,635,000	4.000 - 5.000%	6/1/16-6/1/37	34,635,000

\$ 265,056,863

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

C. DETAIL NOTES ON ALL FUNDS (continued)

4. LONG-TERM DEBT (continued)

The following table summarizes the Corporation's minimum future debt service requirements as of December 31, 2012:

			Total Principal	
	Principal	Interest	and Interest	
2013	\$ 1,330,000	\$ 17,242,234	\$ 18,572,234	
2014	1,485,000	17,204,766	18,689,766	
2015	1,650,000	17,153,729	18,803,729	
2016	1,865,000	17,085,259	18,950,259	
2017	1,910,000	17,003,575	18,913,575	
2018-2022	10,315,000	83,328,375	93,643,375	
2023-2027	8,685,000	81,326,363	90,011,363	
2028-2032	46,040,000	70,100,766	116,140,766	
2033-2037	8,435,000	66,937,637	75,372,637	
2038-2042	0	65,823,719	65,823,719	
2043-2047	107,671,781	67,452,285	175,124,066	
2048	75,670,082	291,503,028	367,173,110	
	\$ 265,056,863	\$ 812,161,736	\$ 1,077,218,599	

A summary of changes in long-term liabilities for the year ended December 31, 2012 is as follows:

Balance			Balance	Amounts due	Non-current
1/1/12	Increases	Reductions	12/31/12	within one year	Liabilities
\$ 228,221,863	\$ 38,375,000	\$ (1,540,000)	\$ 265,056,863	\$ 1,330,000	\$ 263,726,863
30,419,497	9,661,527		40,081,024		40,081,024
	725,822	(21,631)	704,191	28,841	675,350
(3,613,760)		155,695	(3,458,065)	(155,695)	(3,302,370)
\$ 255,027,600	\$ 48,762,349	\$ (1,405,936)	\$ 302,384,013	\$ 1,203,146	\$ 301,180,867
	\$ 228,221,863 30,419,497 (3,613,760)	1/1/12 Increases \$ 228,221,863 \$ 38,375,000 30,419,497 9,661,527 725,822 (3,613,760)	1/1/12 Increases Reductions \$ 228,221,863 \$ 38,375,000 \$ (1,540,000) 30,419,497 9,661,527 725,822 (21,631) (3,613,760) 155,695	1/1/12 Increases Reductions 12/31/12 \$ 228,221,863 \$ 38,375,000 \$ (1,540,000) \$ 265,056,863 30,419,497 9,661,527 40,081,024 725,822 (21,631) 704,191 (3,613,760) 155,695 (3,458,065)	1/1/12 Increases Reductions 12/31/12 within one year \$ 228,221,863 \$ 38,375,000 \$ (1,540,000) \$ 265,056,863 \$ 1,330,000 30,419,497 9,661,527 40,081,024 28,841 (3,613,760) 155,695 (3,458,065) (155,695)

D. RESIDUAL TRUST

Per the 2012 Indenture, the 2012 Residual Trust will receive the future TSRs, consisting of any additional pledged revenues received above the required debt service payments for the Series 2012 Bonds. Total amounts transferred to the 2012 Residual Trust for the year ended December 31, 2012 was \$12,005,631.

E. NEW PRONOUNCEMENTS

The GASB has issued Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34." This statement amends the requirements of GASB Statement No. 14, "The Financial Reporting Entity" and GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments" to better meet user needs and to address reporting entity issues that have arisen since the issuance of those statements. The requirements of this statement will become effective for the Corporation for the year ending December 31, 2013, and will not have an impact on the Corporation's financial statements.

NOTES TO FINANCIAL STATEMENTS December 31, 2012

E. **NEW PRONOUNCEMENTS** (continued)

The GASB has issued Statement No. 65, "Items Previously Reported as Assets and Liabilities." This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this statement become effective for the Corporation for the year ended December 31, 2013. The Corporation is currently evaluating the impact of the above pronouncements.



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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and the Board of Directors Suffolk Tobacco Asset Securitization Corporation Hauppauge, New York

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Suffolk Tobacco Asset Securitization Corporation (the "Corporation"), a component unit of the County of Suffolk, New York, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 22, 2013

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 22, 2013

Ernst & Young LLP